



# Investment Policy Statement

*Protecting and enriching quality public education  
in Claremont through community involvement.*



**CLAREMONT  
EDUCATIONAL  
FOUNDATION**

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## **Organizational Background**

Founded in 1991, the Claremont Educational Foundation (“CEF”) is a local non-profit educational foundation devoted to raising money for schools of the Claremont Unified School District (“CUSD”). CEF’s mission is “To protect and enrich quality public education in Claremont through community involvement.”

The Claremont Educational Foundation collaborates with the school district and the community to assist in providing all students the best education possible. CEF is the school district’s primary partner in providing support and enrichment opportunities that help every student at every school receive an impactful and achievement-filled education from CUSD. The foundation grants funds to each school throughout the district, as well as educators and community partners, with a focus on art, music and technology.

## **Purpose of Investment Policy Statement**

This Investment Policy Statement (“IPS”) addresses the management of CEF’s intermediate and long-term financial assets. These assets have been derived from major gifts made to CEF and may also include accumulated operating surpluses and other contributions over CEF’s history.

## **Engagement of Third-Party Investment Advisers**

The Finance Committee of the Board (“Finance Committee”) shall have oversight responsibility for investment of the financial assets of CEF and may delegate investment authority to one or more third-party investment advisers (“Advisers”) that may be retained by the Board upon recommendation by the Finance Committee.

## **Acceptance of the IPS by Advisers**

The Finance Committee shall provide a copy of this IPS to Advisers, and each such firm shall acknowledge in writing its receipt and acceptance of the IPS.

## **Investment Advisory Agreement; Trade Execution**

Pursuant to a separate investment advisory agreement, CEF may grant discretionary investment authority with respect to the assets of any portfolio to Advisers. The Custodian and/or its affiliates will function as a broker/dealer, and it is expected that Advisers will direct the Custodian, in Custodian’s capacity as a broker/dealer, to execute most or all transactions for CEF portfolios. Advisers may, from time to time, execute brokerage transactions for CEF

portfolios using broker/dealers other than the Custodian, in which case the broker/dealer will be directed to settle transactions with the Custodian.

### **Governance and Implementation**

The IPS, and any revisions to the IPS, shall be approved by the full Board of CEF, acting upon the advice of the Finance Committee.

The Finance Committee shall monitor compliance with the IPS and investment performance, with assistance from the Executive Committee and/or Advisers.

The Finance Committee and/or such staff as the Finance Committee shall designate shall function as the day-to-day contact between CEF and Advisers.

Advisers shall be responsible for ongoing implementation of the IPS with respect to those assets under Advisers' discretionary authority. The Finance Committee shall be responsible for implementation of the IPS with respect to all other assets.

### **Periodic IPS Review**

At least annually in the first calendar quarter of the year, the Finance Committee, in consultation with any third-party advisors they may choose, shall review the IPS, including consideration of possible changes to the spending policy set forth herein below, and, as they deem appropriate, recommend updates to the Board. The IPS may be reviewed at any time, but it is understood that the policy set forth in the IPS is a long-term policy that is not intended to be changed in response to normal market fluctuations and external developments.

### **Types of Funds; Portfolios; Investment Objectives; Risk Parameters**

There are two primary types of investment funds that pertain to this Investment Policy Statement.

1. *Unrestricted Funds* (i.e. Quasi-Endowment Funds) do not have specific stipulations on their use and are administered and directed by the Board.
2. *Donor-Restricted Funds* are subject to donor-imposed stipulations that must be maintained either permanently or temporarily by CEF. Generally, the donors of such assets permit the CEF to use a portion of gifted assets on specific projects, scholarships, or other expenditures related to CEF's mission. Restrictions are often outlined in a separate gift agreement with the donor, and donor-restricted funds

may require an annual administrative fee to oversee and administer associated programs or scholarships.

As of 2020, CEF plans to establish a single pool of financial assets called the **Long-Term Portfolio** (also referred herein as “the Portfolio”). CEF may maintain additional financial assets outside the Portfolio to meet ongoing operational needs and for other reasons as it may determine.

CEF acknowledges the following:

1. In seeking long-term returns greater than those provided by a “risk-free” alternative such as US Treasury bills, assets in the Portfolio will be subject to risk of loss.
2. All investments, including those considered conservative (such as bonds) are subject to risk of loss.
3. Riskier investments (such as stocks) historically have provided substantially greater returns over the long-term than conservative investments. Nonetheless, there can be no guarantee that the same will hold true over any future time period.

This IPS seeks to establish a prudent tradeoff between risk and expected return that reflects the organization’s tolerance for risk.

### *Long-Term Portfolio*

The Long-Term Portfolio is designed to exist in perpetuity and provide a growing and meaningful contribution to CEF’s ongoing operations, empowering its mission “To protect and enrich quality public education in Claremont through community involvement.” This portfolio is unrestricted.

The investment objective of the Long-Term Portfolio is growth of capital and preservation of purchasing power, consistent with a moderate level of risk. Risk is defined as the variability of year-to-year return. A moderate level of risk is defined as an expectation that a loss of more than approximately 20% in a one-year period would occur very infrequently (roughly speaking, about once in 20 years on average).

### **Investment Philosophy and Implementation**

CEF accepts the following investment tenets.

1. Asset allocation among asset classes (such as stocks and bonds) is the primary determinant of investment risk and expected return.
2. The Portfolio will be managed on a “total return” basis, where total return means the sum of income (such as interest and dividends) and capital appreciation (both realized

and unrealized). Any regular cash distributions made from the Portfolio pursuant to the spending policy in the IPS will be considered in the context of the Portfolio's expected total return. As such, the Portfolio will not be managed to achieve a specific income target, either in absolute dollar amount or expressed as a percentage of assets.

3. The Portfolio will seek good risk-adjusted return. Risk will be managed using generally accepted techniques, including:
  - a. Strategic asset allocation (the general mix between more and less risky asset classes).
  - b. Diversification across asset classes; to the extent that returns on asset classes are not perfectly correlated with one another, total portfolio risk may be less than the sum of individual asset risks.
  - c. Diversification within asset classes.
4. The Portfolio will be implemented primarily using mutual funds, including traditional open-end funds and exchange-traded funds (ETFs). Mutual funds generally provide superior diversification, liquidity, and flexibility when compared to individual securities.
5. Index mutual funds are a sound and cost-effective way to achieve exposure to asset classes and will be used extensively in the implementation of the Portfolio.
6. Investment in international asset classes (for example, foreign stocks) can enhance portfolio diversification.
7. Unless expressly authorized, all assets of the Portfolio will be liquid and convertible to cash within two business days.
8. Unless expressly authorized, the Portfolio will not engage in margin borrowing or transactions in options, futures, or other derivative instruments.
9. Periodic rebalancing (that is, adjustment of the asset allocation) is generally necessary to ensure that the Portfolio, over time, continues to reflect both the views of any third-party investment advisers and CEF's expressed risk tolerance. Rebalancing may be carried out at any time at the discretion of Advisers or the Finance Committee, but generally will occur not more frequently than quarterly or less frequently than annually.
10. Other things being equal, higher investment expenses translate to lower investment returns. Accordingly, reasonable efforts should be made to minimize investment expenses, including transaction costs and mutual fund internal expenses.
11. Because CEF is a tax-exempt non-profit entity, the Portfolio will be managed on the assumption that income and realized capital gains are not subject to income tax.

### **Spending Policy**

At the beginning of each fiscal year, CEF shall distribute a sum equal to 4% of the average market value of the Long-Term Portfolio for the 12 calendar quarters ended September 30th of

the prior fiscal year. This sum shall be transferred into CEF's operating accounts to support its ongoing operations and mission. Such transfers may be made in a single lump sum or in equal monthly or quarterly installments, at the recommendation of the Finance Committee.

*In the event the Portfolio has not been in existence for 12 calendar quarters, CEF shall take the average market value of the Portfolio for as many quarters as possible.*

### **Investment Strategies and Asset Allocation Guidelines**

The investment strategy and asset allocation guidelines for the Portfolio are specified in Appendix A to the IPS.

### **Proxy Voting; Class Action Filings**

Corporations and mutual funds periodically send proxy statements to the holders of their securities. The proxy matter can be routine, such as confirming the entity's independent auditing firm or electing directors. Other matters are more complex; for example, a company's shareholders might be asked to vote on a merger with another firm or on a shareholder resolution regarding the company's labor or environmental policies.

CEF retains sole authority and responsibility for executing proxies and other corporate actions. The Executive Committee shall be responsible for this function. CEF may, at its sole discretion, delegate such authority to a third-party organization that specializes in proxy voting and related matters.

From time to time, corporations and mutual funds are the subject of class action lawsuits. These companies' shareholders may be eligible to receive compensation in connection with the settlement of such lawsuits.

CEF retains sole authority and responsibility for submitting claims pursuant to class action lawsuits. The Executive Committee shall be responsible for this function. CEF may, at its sole discretion, delegate such authority to a third-party organization that specializes in filing class action claims on behalf of eligible shareholders.

### **Custody of Assets; Account Reporting**

All assets of the Portfolio will be held by a third-party custodian (the "Custodian"), approved by the Board, in a segregated account in the name of CEF. The Custodian shall provide CEF with confirmations of all transactions and monthly statements of account.

Advisers will provide supplemental investment reports not less frequently than quarterly, including information on asset allocation and performance of managed accounts.

Advisers will meet with the Finance Committee (or such CEF Staff as the Finance Committee shall designate) in person or via phone and/or video conference at least annually. Advisers shall be available for portfolio reviews by phone at least quarterly.

### **Conflicts of Interest**

Members of the CEF Board and any investment advisors that are retained will seek to avoid conflicts of interest in their management and oversight of the Portfolio. In the event a conflict of interest arises, the related party will notify the CEF President, and work to avoid/mitigate any potential negative impacts that could arise from the conflict. CEF maintains a separate Conflict of Interest Policy which all Board Members and staff must sign and is available upon request.

### **In the Event of Dissolution**

Pursuant to CEF's bylaws, "the properties and assets of [CEF] are irrevocably dedicated to charitable purposes. No part of the net earnings, properties, or assets of the Corporation, on dissolution or otherwise, shall inure to the benefit of any private person or individual, or any member, director or officer of this Corporation. On liquidation or dissolution, all remaining properties and assets of the Corporation shall be distributed and paid over to an organization dedicated to charitable purposes which has established its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.



## Appendix A: Investment Strategy and Asset Allocation Guidelines

### Definitions

For the purpose of the investment strategy described below, the following definitions shall apply.

Equities includes the following categories:

- US stocks
- International developed market stocks
- Emerging markets stocks

Fixed Income includes the following categories:

- US bonds
- International bonds

Other includes the following categories (implemented via mutual funds, including ETFs):

- Real estate investment trusts
- Gold bullion
- Other “Real Assets”

### Portfolio Strategy and Asset Class Allocation Ranges

The investment strategy for the Portfolio will be determined in consultation with the Finance Committee and/or retained investment advisors. The expected range of asset allocation to each major asset class is detailed in the accompanying table below. Asset allocation ranges listed are those expected to apply under normal circumstances. Market fluctuation could cause the actual allocations to fall temporarily outside the specified ranges. Generally, any such deviation will be corrected through periodic rebalancing.

Asset Class	Range
Equities	45%-65%
Fixed Income	30%-50%
Other	0%-10%

Assuming a neutral allocation in the middle of the ranges above (i.e. 55% equities, 40% fixed income, and 5% other), the performance benchmark shall consist of:

Wilshire 5000 Index	40.0%
MSCI EAFE Index	10.5%
MSCI Emerging Markets Index	4.5%
Bloomberg Barclays US Aggregate Bond Index	<u>45.0%</u>
<b>Total</b>	<b>100.0%</b>

Should the portfolio's allocation vary from the neutral allocation referenced above, the Finance Committee, at its discretion, may vary the benchmark percentages according to how the portfolio is actually invested between the Equities, Fixed Income, and Other asset classes.